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# COUNTY OF LOS ANGELES

## Internal Services Department

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*Enriching Lives*

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To: Each Supervisor

From: Dave Lambertson  
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Subject: **ENERGY REPORT UPDATE**

As you are aware, ISD periodically updates your Board on the County's ongoing energy management activities. This update provides status on key energy related issues and information on the CPUC decision to award \$3.7 million to the County for energy projects.

### **California Public Utilities Commission (CPUC) Energy Efficiency Proceeding \$3.7 Million Awarded to the County**

In a final decision made on December 18<sup>th</sup>, 2003, the County was awarded \$3.7 million by the CPUC to continue ongoing energy efficiency projects through calendar years 2004 and 2005. \$3.0 million was awarded for energy projects in Southern California Edison (SCE) service territory and \$0.7 million was awarded for natural gas energy projects in Southern California Gas Company (Gas Company) territory. The County's proposal was made in partnership with SCE and the Gas Company. These utilities will contract with the various program vendors and ISD's Energy Management Division will manage the projects' implementation.

The CPUC received 440 proposals from various third parties, a variety of local governments, and the State's investor owned utilities, all seeking program funding from the Statewide pool.

Program funding is expected to begin in February of 2004. Details of the County/SCE/Gas Company partnership proposal are discussed further in the "Retrofit Projects" section of this report.

### **Natural Gas**

The natural gas spot market and futures market prices are currently at annual highs. This December, the peak price for natural gas hit \$7.55/MMBtu (millions of British thermal units) on the New York Mercantile Exchange. Average prices for the remainder of winter are well over \$6.00/MMBtu. Price increases were driven by the severity of the winter weather in the eastern U.S.

As discussed in previous reports, ISD purchased natural gas for County cogeneration facilities (excluding Pitchess cogeneration plant) and larger sites (hospitals, jails) under a fixed price, three-year contract to mitigate exposure to this type of price volatility. ISD's fixed price for all of fiscal year 2003-04 is \$5.42/MMBtu and was based on the futures market at the time of the purchase (July of 2003). ISD will continue to investigate and implement procurement opportunities to minimize natural gas purchase costs and mitigate exposure to volatility.

### **Natural Gas Settlement with El Paso Corporation (El Paso)**

As authorized by your Board, in July 2003, the County and El Paso entered into a settlement agreement to resolve the County's claims and lawsuits against El Paso related to the sale and delivery of natural gas and electricity. Under the settlement, the County will receive an initial up-front payment of \$9,168,170. The balance of the recovery (\$8,943,713) will be paid over 15 or 20 years (depending on El Paso's financial condition).

The County's settlement is contingent upon the courts and regulatory agencies approving or issuing decisions regarding a large global settlement (the Global Settlement) between El Paso and class action plaintiffs, including the Attorney General of the State of California, the CPUC and others. Several of these approvals and decisions have now taken place. Specifically:

- On November 3, 2003, the CPUC issued its opinion approving treatment of the recovery under the Global Settlement.
- On November 14, 2003, the Federal Energy Regulatory Commission (FERC) issued its decision approving the Global Settlement.
- On December 10, 2003, the San Diego Superior Court entered a judgment approving the Global Settlement. This judgment, if not appealed, will become final on February 10, 2004.

In addition to the above, a federal court is required to enter a stipulated judgment regarding the structural relief provided under the Global Settlement. It is expected that this stipulated judgment may be submitted to the court by early next month. Based upon the timing of the various approval and decisions, it appears that the County's initial payment under the settlement will occur within the first quarter of 2004.

Under the settlement, El Paso has the option to prepay the deferred payments at discounted present value amounts. The County's total recovery under this settlement

will be reduced by its attorneys' fees and costs payable to the County's outside legal counsel. The County's outside legal counsel is representing the County on a contingency fee basis.

### **Electricity Rates - SCE General Rate Case**

Under their General Rate Case submittal to the CPUC, SCE has requested new rates for implementation in 2004. In Phase 1 of this proceeding, SCE asked that their revenue be increased by about \$248 million per year to cover increased operating and maintenance expenses and higher overhead costs. Briefs were submitted in May of 2003 and testimony was provided. It is likely the CPUC will not make a final decision until early next calendar year in this phase.

Phase 2 of the Rate Case will determine how SCE's overall revenue requirements for its operating and maintenance, distribution and generation costs (approximately \$6 billion annually) will be allocated to various rate class customers.

To date, SCE has proposed that residential, small commercial, street lighting and agricultural pumping customers will see rate increases. Medium commercial and industrial customers, which comprise most of the ISD managed utility budget, should see rate decreases. The proposed class average impacts were provided in the last energy update report. The net impact to the ISD managed utility budget is currently being analyzed but is initially estimated to result in total savings of \$2 to \$3 million per year. ISD is working with Public Works' staff to determine the impacts (estimated to be significant increases) to their street light, traffic control and water pumping utility costs.

Hearings have been ongoing in Phase 2 since September of this year but are now temporarily on hold. Phase 2 hearings are set to resume in the first week of March 2004. The County, through ISD, has intervened in both phases of the rate proceeding. We will keep your Board apprised of significant events or issues taking place in this proceeding. Any new rates that the CPUC approves will not go into effect earlier than August 1, 2004.

### **Los Angeles Department of Water & Power (DWP) Water Rate Increase**

On November 17, 2003 DWP announced a proposed 18% increase in their water rates. The increases were described as necessary to cover increased security and anti-terrorism costs for their water reservoirs and other facilities, increased costs to meet more stringent water quality requirements, and costs to provide necessary distribution system upgrades. DWP noted that they have not increased their water rates since 1991.

The 18% increase would take place over 2 years and is a surcharge on all customers per unit of water consumption. ISD estimates the impact to the ISD managed portion of the utilities budget (which excludes Public Works and Parks and Recreation) to be an increase of \$1.6 million when fully implemented. The rate increases must still be reviewed and approved by the L.A. City Council, the Mayor and the DWP Board of Commissioners. DWP has indicated to ISD staff that they don't believe the rate increase will be implemented during fiscal year 2003-04.

## **FERC Investigation into Price Manipulation in Western Markets**

### Renegotiation of Long Term Contracts

As expected, this month FERC issued an order denying a rehearing of an earlier ruling which left long term energy contracts between the State Department of Water Resources (DWR) and various power suppliers intact. The CPUC and the state filed a complaint at FERC seeking to abrogate the contract agreements that had been signed with various power suppliers during California's energy crisis. The DWR has already reworked contracts with more than two dozen suppliers. The CPUC announced they would appeal this decision to the United States Court of Appeals.

### Market Manipulation Investigation

FERC continues to research the past activities of various marketers and power suppliers as part of their investigation of electric market manipulation in California. FERC has ordered refunds from various marketers, including \$500 million from Enron, as part of this investigation. In addition, FERC has settled with other entities for cash payments including \$50 million from Reliant (operator of many of SCE's previously owned plants). FERC has also recommended dismissal of further investigations for several suppliers including LADWP. All refunds and settlement monies are to be used for the benefit of California and western electricity customers. Actual dispersal of these funds will be addressed in a future FERC proceeding.

## **Retrofit Projects**

ISD has essentially completed all retrofit projects funded by your Board (\$4.1 million approved on May 28, 2002) and by the CPUC's \$3.3 million energy efficiency grant awarded to the County in early 2002. These projects included lighting retrofits, lighting controls retrofits, variable speed drives on building fan motors, and a new chiller at Harbor/UCLA hospital.

Under the CPUC's recent award of \$3.7 million to the County/SCE/Gas Company partnership, ISD will continue retrofitting buildings in SCE territory using the same technologies as mentioned above, particularly in smaller County facilities. In addition, ISD will embark on a new energy project program – building retrocommissioning. These programs involve implementing relatively minor operating, maintenance and other hardware improvements to heating and air conditioning systems in larger (greater than 100,000 square feet) facilities. The goal will be to bring these systems as close as possible to original design operating conditions.

The Countywide potential for retrocommissioning benefits is large. ISD has identified 16 million square feet of large building space (buildings greater than 100,000 square feet) in SCE territory as potential candidates under the CPUC program. ISD has budgeted over \$1.5 million to perform facility retrocommissioning (approximately 3 million square feet). ISD, in their proposal, has estimated that implementation costs are about \$0.54 per square foot of building space and would result in about \$0.18 per square foot in annual utility savings. This results in an average simple payback of 3 years and is consistent with much of the benchmark and case study data reviewed by ISD.

### **CPUC Regulatory Activity**

In addition to intervention in SCE's General Rate Case described above, ISD continues to monitor and participate in the proceedings described below.

#### Long Term Energy Efficiency Programs

This proceeding seeks to establish long term policies and guidelines for optimizing the State's energy efficiency programs, including those programs administered by the investor owned utilities. The CPUC's Energy Efficiency Funding Program, under which the County has now been awarded nearly \$7 million, was developed under this proceeding. ISD has provided written comments, attended workshops and participated on workshop panels.

This proceeding is especially important because the CPUC, the California Energy Commission and the California Power Authority have all endorsed the State's Energy Action Plan which has mandated that all new, near term demand growth in the State be mitigated with energy efficiency, demand side management and conservation programs.

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### Community Choice Aggregation (CCA) – AB 117

This proceeding is underway and will establish the rules and regulations for CCA which will allow local governments, cities and counties (Aggregators) to purchase and sell electricity on behalf of utility customers in their jurisdictions. In addition, these CCA Aggregators may also receive funding to implement energy programs.

A study to assess the feasibility of CCA is being conducted through the County's participation in a pilot study. The pilot study is being conducted by Navigant Consulting, Inc. and is partially funded by a grant from the California Local Government Commission. The pilot study includes updates from and participation in the CCA proceeding.

At this point, ISD has committed only to a technical study to assess the feasibility of purchasing power from a third party for ISD's utility customers. The County, through ISD, has intervened in this proceeding to highlight issues that are exclusively beneficial to the County.

### Qualifying Facility (QF) Payments

This hearing is important because it will modify the formula used by SCE to pay QFs (like the Pitchess Cogeneration Plant) for power they provide. Pitchess is currently in the 3<sup>rd</sup> year of a 5 year settlement agreement between the County and SCE where payments are based on actual costs to purchase natural gas. Because of past allegations of natural gas market manipulation and extreme price volatility, SCE sought to change the market index for the natural gas component of these payments. SCE sought to use a natural gas market index (California/Oregon border) that has been historically more stable and lower than the market index (California/Arizona border) used by ISD to purchase gas. Unfortunately, natural gas at California/Oregon border prices is essentially inaccessible to Southern California QF operators.

This proceeding has been reactivated now that the 5 year settlement agreements signed by the County and other customers are nearing termination. ISD will actively participate in this proceeding. We will keep your Board apprised of any significant developments.

If you have any questions, please contact me or have your staff contact ISD's Energy Management Division Manager, Howard Choy, at (323) 881-3939.

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